LEGISLATIVE SERVICES AGENCY

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FISCAL IMPACT STATEMENT

LS 6103 | **NOTE PREPARED:** Jan 3, 2011
BILL NUMBER: HB 1149 | **BILL AMENDED:**

SUBJECT: Repeal of valuation method for certain property.

FIRST AUTHOR: Rep. Smith V | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **DEDICATED** **FEDERAL** | **IMPACT:** Local

Summary of Legislation: This bill provides for the expiration of the property tax valuation method for special integrated steel mill and oil refinery/petrochemical equipment. It also repeals a related noncode provision.

Effective Date: January 1, 2011 (retroactive).

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law and DLGF rule, business personal property is valued according to a depreciation schedule as specified in the rule. Most taxpayers list the cost of depreciable property in one of 4 "pools", depending on the declared useful life of the property. Each pool has a different set of depreciation rates for each year of age of the property. The asset cost is multiplied by the appropriate "percent good" factor in the depreciation schedule to produce the total true tax value (TTV) of the assets. The TTV of all of a taxpayer's depreciable property located in the same taxing district must be at least 30% of the total cost of the property (30% floor). The rule allows for special valuation of special tooling and for an adjustment for abnormal obsolescence of depreciable assets.

Taxpayers who own integrated steel mill property (used to produce steel from iron ore and other materials in a blast furnace in Indiana) or oil refinery/petrochemical equipment are permitted to report that property in a fifth pool on the depreciation schedule. In addition, all of the taxpayer's property may be valued in Pool #5 if at least 50% of the total reported property cost is attributable to special integrated steel mill or oil refinery/petrochemical equipment.

The TTV of property reported in Pool #5 is not subject to the 30% floor. In addition, the depreciation schedule already reflects all adjustments for depreciation and obsolescence, including abnormal obsolescence. Therefore, a taxpayer electing to use Pool #5 may not claim any other obsolescence adjustment.

Taxpayers in Lake, Porter, and Spencer Counties have been identified as currently reporting assets in Pool #5. The total gross assessed value (AV) on tax returns that utilize pool #5 for taxes payable in CY 2010 was $1.16 B with a net AV of $979 M. The net tax due on this valuation was $32.7 M.

This bill would eliminate use of Pool #5 beginning with taxes payable in CY 2013. Taxpayers would report their personal property in the 4 remaining pools. The 30% valuation floor would apply and taxpayers could again make claims for obsolescence.

The final AV on future returns might be higher, lower, or the same as the current returns, depending on taxpayer reporting and claims. The tax returns and related claims would be subject to review and any changes by assessing officials subject to appeal.

Any change in the final assessed value would create a shift of the property tax burden among taxpayers. If these assessments increase, then part of the tax burden would shift from all other taxpayers to the taxpayers who are changing pools. Conversely, if these assessments are reduced, then part of the tax burden would shift to other taxpayers from the taxpayers who are changing pools. In addition, the levy generated in rate-controlled funds such as cumulative funds would either increase if personal property AV increases or it would decrease if personal property assessments are reduced. If tax rates are reduced, then exposure to the circuit breaker caps would be reduced. If tax rates increase then additional circuit breaker losses would be incurred.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Taxing units in Lake, Porter, and Spencer Counties.

Information Sources: OFMA property tax database.

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